CA-IPCC/FINAL MAY-2017

AMENDMENTS

BY- CA Seema Lalchandani

[Shiksha - Academy - Gandhidham
academy for CA-CS-CWA

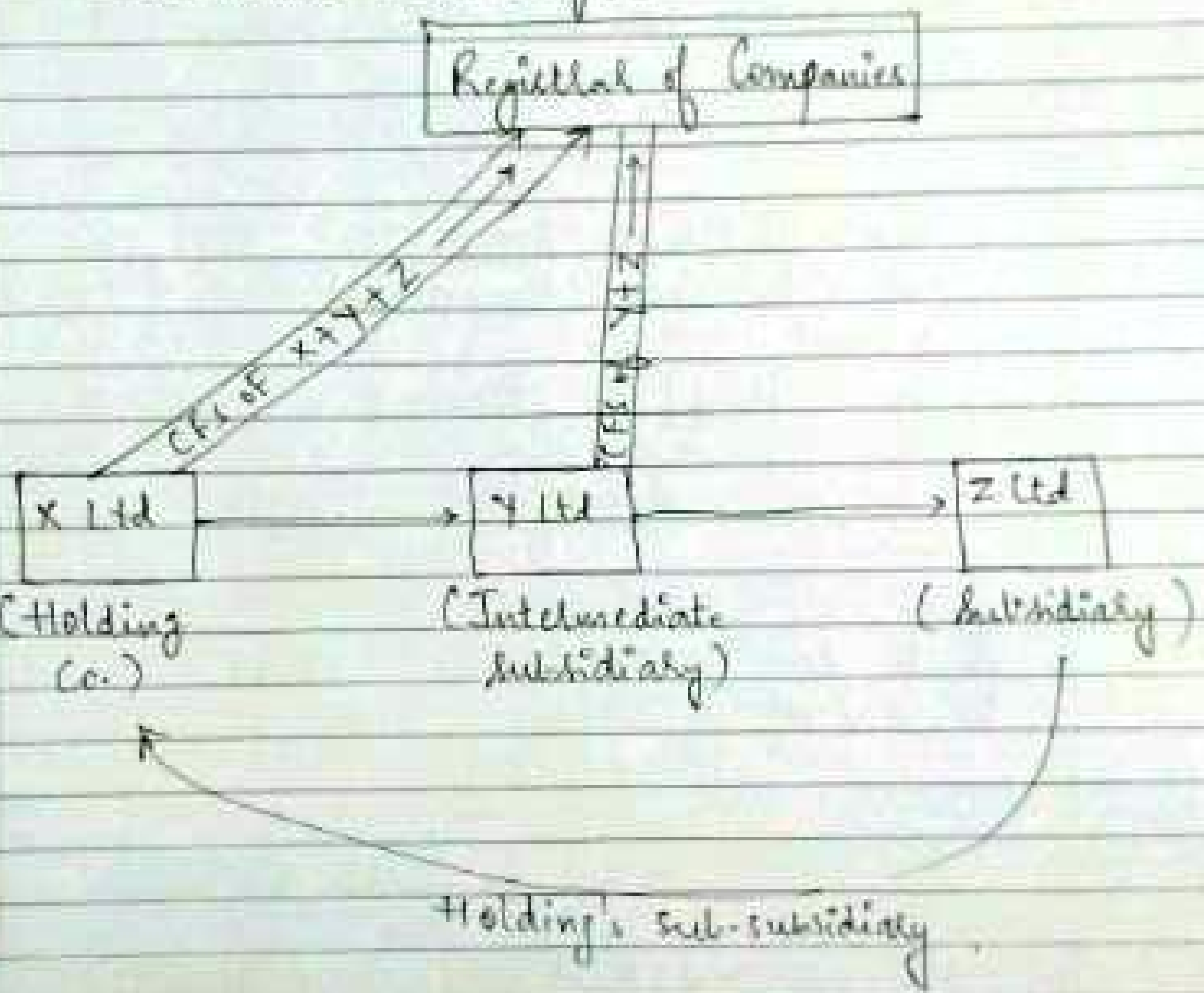
(1)

AUDIT NOTES - IPCC - MAY-2017

NOTES OF AMENDED SECTIONS & SOME OTHER IMP. SECTNS

1. [Section - 129] → Exemption to company from preparation of "Consolidated Fin. Stmt" [CFS]

(i) Amended [Earlier ~~an~~ exemption under this head was available ONLY to WHOLLY-OWNED (100%) Intermediate subsidiary!]



Isn't is duplication of process??
∴ to remove such duplication of efforts & process this exemption is given by govt.

→ Conditions for grant of exemptions to Intermediate Subsidiary

1) Intermediate subsidiary may be Wholly owned / Partially owned subsidiary.

2) Other member of Intermediate subsidiary (Including those who are NOT otherwise entitled to vote i.e. Voting members AND Non voting members)

↓

Shall intimate in writing that they do not object for Non-preparation of CFS by (Y ltd)

$\boxed{\text{And}}$ it shall have proof of delivery of Intimation

3) Such co. is not listed or is NOT even in process of listing

↓

whether in India or Outside

4) Ultimate Holding / Intermediate Holding

↓

files CFS with RoC as per sch-III & applicable AS.

(ii) (2nd exemption) → from 1/4/2014 - 31/3/2015 to companies
↓
from preparation of CFS which has its Joint venture co. or Associate co. but NO subsidiary.

(iii) → exemption to Holding co. having subsidiaries
↓
Incorporated outside India
↓
Holding exempted from preparation of CFS from 1/4/2014.

Section 130

[This section has been notified for the 1st time in India]

* Revision & Recast of Fin. Stmts with ORDER of court.

If it appears to any of the foll. persons that Fin. stmts are prepared:

(i) Fraudulently

eg:→ (fake incomes, fake exp / assets / liab)

OR

(ii) Improperly prepared due to MISMANAGEMENT

eg:→ (No proper primary books, no proper Trial Bal etc)

↓

because of which F.S. are UNRELIABLE

↓

then foll. persons can make application for reopening & revision of PAST F.S.

↓

1. Central Govt (OR)
2. Income Tax Authority (OR)
3. SEBI (OR)
4. Any other statutory body/ regulatory body (eg: RBI / IRDA / NABARD) (OR)
5. ANY other persons concerned

→ Court / Tribunal

↓

- After receiving applicatn court will see the application, will try to understand situation, check the records etc & then decide

Karega reopen karna chahiye ya Nahin

[jus an explanation, agar what jao toh]

⟹ BEFORE passing order for Reopening Court / tribunal shall send notice to →

↓

CG / IT dept / SEBI / regulatory body / persons

→ They will make their representations and only after considering that

Court / Tribunal shall pass an order for reopening & recasting any preceding year's F.S

→ After that reopened & revised F.S shall be final!

Section -131 - Voluntary Reopening & Recasting of F.S

Jus for your understanding :

- Responsibility for preparation of financial stmts is of management.
- In case of co. it is of directors & using this section 131 they themselves (bavare wale khud change karana chahte hai) feel that previous year's F.S shall be reopened & revised

Comparison b/w section-130 & 131

130	131
F.S - ONLY	Revision of FST as well as BOD-Report.
Reopening by outsiders	Reopening by preparers themselves - Directors
ANY preceding year's FST (even 10 yrs older) can be revised	Revision allowed ONLY of preceding 3 year's FST/BODR.
Application for Revision can be made to Court/ Tribunal	Application ONLY to ~~Tribunal~~ Tribunal.

Entire process under this section

If it APPEARS to directors that → • that F.S / BOD Report is NOT prepared as per section 129/134 → they APPLY for revision to → ONLY Tribunal (NOT X court) → then it PASSES ORDER for Re-opening → • Co. shall file copy of order with Registrar of companies & then Revise F.S / BODR

only for re-opening of F.S / BOD Report of preceding 3 F.Y

on receiving applicat'n & before passing order it sends NOTICE to • CG & I.T. dept only & considers their Representations

⇒ <u>Imp pts of section 131</u>

- Revision of FST/BOD should NOT be done more than ONCE in a F.Y year.

- Mention detailed reasons for FST/BOD

↓

Should be explained in BOD Report of

↓

the F.Y in which such revision is made

(i.e. if F.Y of 13-14 amended in 2016-17 then mention reasons of amendments made in 2013-14 in BOD report of 16-17)

- [Above requirement NOT mention under sectn-130

- Sectn 131(2) - refer diagram <u>behind</u>!

ENTIRE process of F.S till they reach Annual gen. meeting

Co. Can Revise ANY-TIME they want WITHOUT applying secth-131

- B.S date 31-03-2012
- ↓
- Fin stmt prepared by BOD/mgmt
- ↓
- Approved by BOD
- ↓
- Signed by auditor
- ↓
- Sent to S/H
- ↓
- Presented & adopted in AGM
- ↓
- Submitted to ROC!

* Refer how approved/authenticated in Note * (current pg)

— Secth- 131(2)

- If Co. wants to revise F.S once it is sent to S/H or presented in AGM or sent to ROC, it will have to apply sect-131 [even though F.S are of current year]
- that too ONLY for reasons of non-compliance of secth-129/134
- i.e. they cannot revise it for changing Actg policy. etc
  - eg. WDV to SLM

* Authentication of F.S by BOD - shall be signed by -

- Chairperson, if so authorised,
  - where chairperson has no authority then by atleast 2 directors one of whom shall be managing director.

- CEO, if he is also a director

- Chief financial officer & Comp. secretary, if they are appointed by co.

→ $\boxed{\text{Sect - 131 (3)}}$ powers to CG

- CG will issue rules in relation to Revised FST | BODR & such rules may in particular

(a) - make provisions
- according to which
  previous year's F.S | Report are to be
  ↓
  Replaced | supplemented by
  Revised F.S | Report.

(b) - provision w.r.t functions of co's auditor in relation to revised FS | report.

(c) - provisions requiring directors to take such steps as may be required (like informing SH about change)

Section - 148

Rule - 3 : Applicability of maintenence of Cost Records

For Domestic & Foreign co. - producing gds / delivering services mentioned in

List - A / Table - A
↓
Regulated sector

Table - B
↓
Non - Regulated Sector

only if OVERALL turnover of co. is ≥ 35 crores during preceding F.Y
↓
shall maintain cost Records.

[ONLY for your understanding -

co. is required to maintain cost records only if foll. 2 conditions are satisfied -

1. products / services provided are covered in Table - A / B (AND)
2. co's T.O. exceeds the limit i.e. 35 cr]

- If requirement of cost records is applicable ONCE then co. has to maintain cost records always.

- EXEMPTION to foll. companies from preparin Cost Records –

→ • Foreign co. having ONLY liason office in India i.e (they do not have any working office in India only work they do is extract information from India)

OR

→ Medium / small enterprises as per MSME Act.

* Applicability of Cost Audit for:

Regulatory sector	Non-regulatory sector
• If OVERALL T.O ≥ 50 cr	• If OVERALL T.O ≥ 100 cr
AND	AND
• Aggregate T.O of individual products ≥ 25 cr	• Aggregate T.O of Indiv products ≥ 25 cr
(both during preceding F.Y)	(during preceding F.Y)

Rule - 4

• EXEMPTION from conducting Cost Audit

• cos. in SEZ

(No need to conduct cost audit)

• if company's exports are exceeding 75% of its Total T.O

• co. engaged in generation & supply of ELECTRICITY for Captive consumption

Rule 6 - Cost auditing process - (there are little bit amendments but I have covered entire process for better understanding)

Covering whole Rule for Cost Records & Audit Rules.

Not just amendments

→ 1) every Co. required to maintain cost records shall maintain in form CRA-1 (Cost records & audit -1)

[Amendment] After maintaining cost Records

↓

for cost audit they will have to appoint cost auditor

→ ① So BEFORE appointing Cost auditor take a written consent from him (that he is ready to work as Cost Audi of our co.) just like statutory auditor

② BEFORE appointing Cost auditor take a certificate from him - which just like that of CA - Statutory auditor

- Certify that
  - he is Not disqualified (as per Co. Act)
  - his appointment will fall within max limits permitted
  - I am eligible as per CWA Act
  - cases of professional misconduct pending & orders passed

(3) after that you appoint him but you will have to appoint Cost Auditor within 180 days from beginning of F.Y by passing BOD resolution.

(4) After appointment

- co. shall inform cost auditor concerned of his/its apptmt

&

file a notice of such apptment to CG (in form CRA-2)

↓

within a pd of 30 days from BM in which such resolution was passed.

OR

(But should NOT cross 180 days) within 180 days of start of F.Y

imp pt

in e-mode (Form CRA-2)

(within 30 days of apptmt

OR

180 days of start of F.Y

↓

WE earlier)

(5) Now cost auditor comes & prepares & submit Cost audit Report

so he will ask for cost stmts from director

↓

But before Submission of Cost stmts & attachments thereof

↓

Cost stmts & records shall be signed by BOD

i.e. by atleast 1 director

authorised by BOD.

Now Cost auditor checks & prepares Report

↓

(6) prepare Report duly signed in Form CRA-3 along with his reservations | qualifications.

& then submit to BOD within 180 days

↓

from the End of F.Y to which report relates.

& BOD shall examine such report.

(7) then BOD shall send such Report in Form CRA-4 to CG within

↓

30 days of Recpt of CAR from CA

along with full info & explanation for qlfctn & reservation remark

(8) Cost Auditor's position/term gets over when

↓

within 180 days ~~within~~ from end of FY

OR

submission of Report WEG

(9) Amendment - Removal of Cost auditor

- Can be removed any time jus by passing Board Resolution ONLY! But ~~when~~ only after giving reasonable opp of being heard. similarly CA can resign anytime

- Casual vacancy created will be filled by BOD within 30 days & shall intimate CG (CRA-2) within 30 days.

- Cost Auditor also comply 143(12) fraud report

CARO - 2016

- Its origin from section 143(11) - CG's power - to make any rule/procedure thru general/special order to be complied by auditor while preparing audit report.

- CG used this power & issued this ORDER.

• **Structure of CARO - 2016 :**

Structure of CARO

- PARA-1 - Applicability & commencement of CARO
- PARA-2 - CARO shall be part of Audit Report
- PARA-3 - Matters to be included in CARO (16 - clauses)
- PARA-4 - give reasons for unfavourable/qualified remarks.

CARO - applicability PARA-1

- Its applicable to every co. including foreign companies.

  i.e. every co. shall prepare CARO and attach it with Audit Report.

- **EXEMPTIONS** from preparatn of CARO to following co.

  (IB-COPS - Intelligent Bureau ke Cops nikle Investigation pe !) Juz hidding its

Exemption from CARO 16

S - Small company (subject to fulfilment of cc) ★★

I - Insurance Companies

B - Banking companies

C - Charity company i.e. section 8 co.

O - One person co.

P - Pvt company (subject to fulfilment of ALL 4 conditions) ★★ ★★

★★★★ → Conditions for exemption to Pvt co.

1. It should **NOT** be either Holding → check this on
   or subsidiary of PUBLIC co. — B/s date

2. Should NOT have PUSC + Res & surplus → check this on
   exceeding 1 crore — B/s date

3. Borrowings o/s from Banks / Fin. Insti- → ANY pt of
   tutions shall **NOT** exceed 1 crore — time during F.Y

4. Revenue shall **NOT** be exceeding → during F.Y
   10 crore

Revenue NOT only T.O
i.e (Total revenue disclosed
in F.S. sch-III)

- Small companies eligible for exemption from CARO-2016
  ↓
  NOT specified in CARO (or) its guidance notes

But as per definition of act.

→ Small co. means a co. (Other than Public co.) i.e Pvt co. in which

Pusc does NOT exceeds 50 lakhs or such higher amt as may be prescribed by CG [and CG may prescribe increased amt upto 5 crore].

AND +

Turnover as per its last P/L does NOT exceeds 2 crores or (increased amt which can be incr upto 20 crores)

↳ Both on last date of P.S

→ [Further conditions] Provided that - definition of small co. does NOT Apply to -

- a co. having holding co. or subsidiary co.
- a co. u/s - 8
- a co. governed by special Act (RBI | NABARD etc).

Case studies Related to Exemption of CARO

QUES	ANS
1. This order is applicable on co. or on auditor? (i.e. it creates legal obligation on whom co. or auditor)	- This order is on the Auditor NOT company.
2. Is Consolidated Fin. state. exempt from CARO?	- CARO is applicable on stand alone basis. - NOT applicable on CFS.
3. Is CARO applicable on Branch Auditor?	- YES.
4. Is exemption available to both Life Insu Co. and even general insu co.?	- YES. (as only Insu co. was mentioned NOTHING specified so every insu co. gets exemptn.)
5. Can foreign bank gets exemption? [as only Banking co. has been mentioned in Case-1. Moreover as per Banking co. definition specified in Banking regulation Act 1949, foreign companies are included!]	Yes.

BANKING Co.

6. Co-operative Banks get exemption? [As co-operative bank is Bank but NOT a company. ∴ CARO is NOT applicable only so No ques of exemptn]	– NO
7. Will NBFC get exemption? (eg. muthoot finance) [Reason – its a company but NOT Bank so wont get exemption.]	No. i.e. it will have to prepare CARO-2016.
8. In december NBFC got converted into Bank, will it get exemption? As per guidance Note on CARO – [We shall check status for exemption on – B/s date]	YES.
9. In december Bank converted into NBFC, will it get exemption?	~~YES~~. No. (on B/s dt, its NBFC)
10. Co. licensed u/s-25 of Indian company act 1956, will get exemption? Section-8 Co. [As per guidance notes, reasonably exemption shall be available to both section-8 (under co. act 2013)	YES.

and also section-25 (under Co. act 1956)

{Conclusion} Status of OPC (section-8) Insu Co. / Banking co. (small co.) Pvt co. / for exemption - when to see →

On B/S Date.

Section - 8

10. Co. was licensed u/s 25 of Indian co. act 1956, will it get exempted? | Yes.

[As per guidance notes reasonably to both u/s 8 of 2013 or u/s 25 of 1956)

Conclusion

11. Status of OPC / section 8 / Insu co. / Banking co. / small co. / Pvt co. for exemption when to see | On B/s date.

(guidance Notes) →

Pvt Co.s

12. Are all conditions mandatory to get exemption for Pvt Cos.? (even if 1 condi Not satisfied - No exemption) | Yes all are mandatory (cumulatively)

13. 75% of eq shares of pvt co were held by public co. till 15 Jan, on this date 30% were sold in open mkt, will such pvt co. get exemption? | Yes will get exemption as we have to check status on B/s dt (31/3/2016)

[public = 41
Pvt = 1 — But on B/s dt NO H-S]

As per CARO 2015 – guidance Notes exemption was for ONLY limited liab co.

V.V. imp

14. Pvt unlimited co. has PUSC of Rs 90 lakhs, o/s loan 85 lakhs, Turnover 7 crores, & is not subsi or Holding of any public co. will it get exemption — Yes

[CARO 2016 guidance notes clearly mentioned that exemption is for BOTH Pvt -limited & unlimited Co.]

15. Pvt co. is subsi of public foreign Co. or its Holding company of public foreign co., will it get definition exempts? — No

koi bhi H-S public ho chahe Indian or foreign

16. How to Cal PUSC & Res-surplus

we will count → Pref SC
+ Eq SC.
+ Gen Res.
less huge.

→ debit Bal of PL
earlier it used to be ignored but Now deducted.
→ rule

Date 29

Only Res mentioned so All reserves added - Cap Res | restricted | Free |

- Securities prem.

- Sh app money — No
- Sh forfeiture A/c (added) — Yes.

[as per sch III we have to add. add sh forfeiture A/c by cancelling sh cap

- Calls in arrears — minus.
- CRR — Yes added.
- Revaluation Res — Yes "
- Sh options o/s A/c. (it is also part of Reserves (ESOP A/c in at that time) coz aage jake isko store karke paise Ni share dete hai — Yes added

Ignore Calls-in-advance (its liability)

17. Calⁿ of Borrowings

Interest on loans Accrued & due	Yes added
(Am) " " " " but Not due	Not added (Not liability)

18. (Am) Fund based facilities from banks Rs 20 lakhs & non-fund based facility Rs 10 lakhs which are not yet devolved, how much should be counted in borrowings.

- Fund based - jitne bank se money mil gaya — added

- Non fund based - " abhi tak paise Nahi mile -
  LC - bank ne humare behalf pe sirf guarantee di hai abhi paise mila Nahi hai → Not counted

19. if loan is payable within 12 mths then shown in curr liab - current maturity of long term loan — BOTH shall be counted in Borrowings as per guidance Notes.

i.e. 30 lakhs loans

5 lakhs to be paid within 12 m & shown in curr liab

25 lakhs shown in long term liab

20. Borrowings counted - Short term or long term?

Both, because there is No stipulation w.r.t to long term or short term borrowings.

21. If loan amt fully recovered by FD, will it be counted in Borrowings?

Yes.

Actually 50 lakhs loan against 50 lakhs F.D adjustible loan however shown in F.S does NOT matters.

In guidance Note clearly mentioned that security's amt in loan shall be ignored - NOT relevant - full amt taken in borrowings.

22. Pvt Co. borrowings from

- Mukesh Ambani = 20 lakhs ×
- Maliya = 35 lakhs ×
- ICICI Bank - 20 " ✓
- IFCI " = 20 lakhs ✓

Only from Banks & F.I.

Not counted

Counted

V.V.imp

23. Will loan from NBFCs be counted in borrowings in CARO 2015 Not counted " 2016 Counted [they say it comes in FSs.]	Yes.
24 CC limit or actual loan CC limit = 30 lakhs AL = 25 lakhs	Actual loan = 25 lakhs
25. Take loan = 1.6 cr but it has been completely repaid at the end of year? will it be taken as NIL? OR during year - 1.6 cr at the end = 90 lakhs 1 cr exceeds?	No. Remarks for loan it was at any pt of time during yr exceeds 1 cr condition broken yes

Income - Revenue

26. Total Revenue Revenue - ALL Incomes.	
Sales	✓
Services	✓
Sale of scrap	✓
Profit on sale of FA etc.	✓
EVERYTHING	

27 How will we give treatment to foll items for cal^n of Revenue

(i) Sale	Add
(ii) Sales Return - of P.Y / of C.Y	Minus

Remember for 44AB & also for CARO all returns are deducted

(iii) Excise duty, vat

$\boxed{\text{If NOTHING mentioned then Assume EXCLUSIVE METHOD}}$

→ Inclusive method accounting	Added
→ Exclusive method of Accounting	Not added (omitted)

Exclusive

Cash Dr - 110
To sales - 100
To Excise - 10

Inclusive

(i) Cash Dr - 110
To Sales - 110
(10 Rs tax)

(ii) Sales Dr - 10
To Excise duty - 10

→ 1st time entdag with sale = Inclusive

eg. sale Rs 10050 including tax Rs 400) which method method inclusive hai Nahi bolna jaagly !	Exclusive assumed only said sale ke andhar tax added hai
(iv) Int on Trust	Added
(v) Profit on sale of assets	Added

28 SMALL Co.

A co. is a small co. but does NOT fulfills condi for pvt Co. still will get exemption!

29 Sales — Pvt ↓ Total revenue — Small ↓ Turn over — ✓
Profit on F.A — ✗
any other Income — ✗

30 Pvt said its 41 & 5 shall Not be public i.e. pvt co 41/s chalegi but in small 41/s chalegi hi Nahi — v. imp

31\. Pvt Co.

↓

PUSC &

Res &

Surplus

Small

Here ↓

ONLY

PUSC.